

Message Text

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C O N F I D E N T I A L SECTION 1 OF 2 USNATO 0924

E.O. 11652: GDS

TAGS: ETRD, MASS, NATO

SUBJECT: NATO-HAWK PRODUCTION PROBLEMS; US EXPORT LICENSE DELAYS

REF: USNATO 0769, 12 FEB 75

B. USNATO 6990, 18 DEC 74

BEGIN SUMMARY: MISSION NOTIFIED WASHINGTON LAST WEEK OF NATO-HAWK PRODUCTION DELAYS DUE TO US HOLDUP OF AN EXPORT LICENSE TO GENERAL ELECTRIC COMPANY. NATO-HAWK GEN MGR HAS FOLLOWED UP WITH A MESSAGE TO MEMBERS OF THE NATO-HAWK BOD THAT HIGH-LEVEL MEETING IN WASHINGTON LAST WEEK DID NOT PRODUCE STAISFACTORY SOLUTION. MIS- SION ANTICIPATES PROBLEMS FRO THE US AT THE BOD MEETING OF MARCH 11-13 AND SUGGESTS THAT WASHINGTON PREPARE SUITABLE BRIEF FOR USE BY US REP TO BOD. ACTION REQUESTED: STATUSREPORT AND GUIDANCE WITH RESPECT TO US POSITION AT MARCH BOD MEETING. END SUMMARY.

1. MISSION NOTIFIED WASHINGTON LAST WEEK OF PROBLEM SURROUNDING EXCESSIVE DELAYS IN US GRANTING OF AN EXPORT LICENSE TO GENERAL ELECTRIC COMPANY FOR SHIPMENT OF URGENTLY NEEDED ITEMS TO ITALY FOR NATO-HAWK (IMPROVED HAWK) PRODUCTION PROGRAM (REF A). MESSAGE INCLUDED QUOTE FROM TELEX TO NATO-HAWK NOARD OF DIRECTORS (BOD) BY NATO-HAWK GEN MGR (GEN COERDT). GEN MGR HAS FOLLOWED CONFIDENTIAL

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UP ORIGINAL MESSAGE WITH A SECOND MESSAGE AS FOLLOWS, DTG 141000Z FEB 75:

SUBJECT: EXPORT LICENSES FOR COMPONENTS FROM US GENERAL ELECTRIC TO

CGE

REFER TWX HK/42902 OF 12.2.75.

RAYTHEON HAS INFORMED ME OF THE RESULT OF A HIGH-LEVEL MEETING IN WASHINGTON. THIS MEETING HAS NOT PRODUCED ANY SATISFACTORY SOLUTION FOR NATO TO THE PROBLEM AT REFERENCE.

ON THE CONTRARY EMPHASIS WAS PLACED ON THE NEED TO CHECK ON THE SHIPMENT LIST WITH THE OBJECTIVE OF DIVERTING A PORTION OF THE MATERIAL TO MEET THE NEEDS OF THE US ARMY. IF SUCH IS THE POLICY APPLIED THE RESULTING SLIPPAGE OF THE PROGRAM CANNOT BE PREDICTED. IT BECOMES ALL THE MORE URGENT TO TAKE UP THE MATTER WITH THE US ADMINISTRATION TO OBTAIN A PROPER POLICY DECISION.
END QUOTE.

2. US MEMBER (COL LYNCH) OF NATO-HAWK HAS DISCUSSED THE MATTER BY TELEPHONE WITH US HAWK PROJECT MANAGER (COL DEADWYLER). MISSION UNDERSTANDING IS THAT APPROXIMATELY 7000 LINE ITEMS ARE BEING DELAYED FOR SHIPMENT UNDER USARMY DIRECTION TO PERMIT THE US ARMY MISSILE COMMAND (MICOM) TIME TO EVALUATE LIST IN SEARCH OF ITEMS URGENTLY NEEDED BY THE US ARMY. INITIAL EVALUATION APPARENTLY INDICATES THAT THE ARMY MAY HAVE A REQUIREMENT FOR APPROXIMATELY 500 OF THE LINE ITEMS. OTHER CONTRIBUTING FACTORS TO THE PROBLEM INCLUDE A SOMEWHAT LATE REQUEST FOR EXPORT LICENSE BY GENERAL ELECTRIC (15 NOV 75) AND THEN SUBSEQUENT DELAY OF THE SHIPMENT (FROM 20 DEC 74 ONWARD) WITHOUT EXPLANATION TO NATO-HAWK UNTIL FEB 75. THE ITALIAN FIRM, C.G.E. (FIAR), WAS SCHEDULED TO START ASSEMBLY ON 1 FEB 75 AND IS NOW FACING EXTENDED SCHEDULE SLIPPAGE.

3. IN MISSION VIEW THE RAMIFICATIONS OF THIS PROBLEM EXTEND BEYOND THE NATO-HAWK PROGRAM. ALTHOUGHT WASHINGTON RESOLUTION OF THIS PROBLEM AT AN APPROPRIATE LEVEL IS ESSENTIAL, RESOLUTION AT THIS LATE DATE MAY NOT END THE MATTER. THE FOLLOWING BACKGROUND AND RATIONALE IS PERTINENT TO THE PROBLEM:

THE NEXT NATO-HAWK BOD MEETING IS SCHEDULED FOR 11-13 MAR 75. ALTHOUGH THIS PROBLEM IS NOT ITEMIZED ON THE DRAFT AGENDA (PUBLISHED 7 FEB 75), MISSION EXPECTS THAT IT WILL BE ADDED
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OR BROUGHT UP UNDER OTHER PRODUCTION RELATED ITEMS. AS WASHINGTON WILL RECALL DURING THE PAST YEAR THE US HAS ENGAGED IN RATHER ACRIMONIOUS DEBATE WITH THE BOD AND IN PARTICULAR WITH FRANCE OVER ISSUES OF FAIR PLAY IN NATO-HAWK PROCUREMENT PRACTICES. THE US AS THE DAMAGED PARTY IN THE CASE INVOLVING CARIAN ASSOCIATES AND DISPUTED KLYSTRON AWARDS, HAS BEEN SUCCESSFUL IN PRESENTING A SOLID MORAL CASE FOR IMPROVED PROCUREMENT PRACTICES WITHIN NATO-HAWK. IN THIS PROCESS THE US REP HAS REGISTERED STRONG CRITICISM OF BOTH BOD AND (IN PARTICULAR) FRENCH ACTIONS WITH REGARD TO THE DISPUTED KLYSTRON PROCUREMENT. THE LAST ROUND IN THAT EXCHANGE OCCURRED AT THE BOD MEETING OF 10-13 DEC 74 (REF B). IN THE COURSE OF SEVERAL KLYSTRON DISCUSSIONS FRANCE HAS LED THE DISCUSSION FAR AFIELD OF THE NATO-

HAWK ARENA. ALTHOUGH THE REGULAR FRENCH REPS WHO OCCUPY THE FRENCH DIRECTORS CHAIR AND ALSO CHAIR THE BOD (UNTIL JUNE 75) TEND TO STICK TO NATO-HAWK BUSINESS, FRANCE FREQUENTLY SENDS IN INGENIEUR GENERAL CAUCHIE TO ADDRESS THE BOD ON MATTERS OF PARTICULAR IMPORTANCE TO FRANCE. GEN CAUCHIE ALSO ACTS AS SPOKESMAN FOR THE FRENCH NATIONAL ARMAMENTS DIRECTORS (NAD) IN THE CHAIR OPPOSIT THE US NAD (DR. CURRIE) AT THE SEMI-ANNUAL CONFERENCE OF NATIONAL ARMAMENTS DIRECTORS (CNAD). INTELLIGENT, ARTICULATE, AND WELL-VERSED IN THE NUANCES OF THE FRENCH ARMAMENTS BUSINESS, GEN CAUCHIE IS ADEPT AT LINKING NATO-HAWK MATTERS WITH OTHER SUBJECTS WHICH HAVE INCLUDED THE US BUY AMERICAN ACT, US ANTI-DUMPING LEGISLATION, OTHER TRADE RESTRICTIVE MEASURES, AND OTHER NATO COOPERATIVE PROGRAMS. SPECIFICALLY GEN CAUCHIE HAS ALLUDED TO US FRENCH COMPETITION FOR THE NATO F-104 REPLACEMENT PROGRAM IN TERMS OF DETERMINED US ATTEMPT TO STEAM-ROLL EUROPEAN INDUSTRY. OUTSIDE OF THE BOD MEETINGS AND SPEAKING PERSONALLY, GEN CAUCHIE HAS STATED TO US REP HIS GROWING CONCERN ABOUT THE (DETERIORATING) US/FRENCH RELATIONSHIP IN ARMAMENTS COOPERATION. CONSIDERING RECENT EXPERIENCES, MISSION EXPECTS FRENCH DELEGATION MAY LEAD A BOD ATTACK ON THE US GOVERNMENT INTERVENTION IN THE NATO-HAWK PRODUCTION PROGRAM. WITHOUT A STRONG DEFENSE THE US STANDS TO LOSE THE GOOD WILL EARNED (AT FRENCH EXPENSE) OVER THE SECOND DISPUTED KLYSTRON PROCUREMENT (REF B). WE MAY ALSO ENCOUNTER PRESSURE FOR US ADMISSION OF RESPONSIBILITY (FOR WHATEVER REASON) FOR DELAYING THE PRODUCTION PROGRAM. THE SITUATION INVOLVES OBVIOUS LEGAL AND FINANCIAL ASPECTS.

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C O N F I D E N T I A L SECTION 2 OF 2 USNATO 0924

4. MISSION EXPECTS BOD (PROBABLY WITH FRANCE TAKING THE LEAD) LOGICALLY MAY PURSUE THE FOLLOWING LINE OF QUESTIONING ABOUT THE EXPORT LINCENSE PROBLEM:

A. WHY DID THE US GOVERNMENT SEE FIT TO DELAY THIS PARTICULAR SHIPMENT OF COMPONENTS BY REFUSING TO CLEAR THE EXPORT LICENSE IN THE NORMAL PERIOD OF TIME?

B. IF IN FACT, THE US ARMY HAS AN URGENT REQUIREMENT FOR SOME OF THE SHIPMENT LINE ITEMS, WHY HAS THE ARMY NOT PLACED ITS ORDER FOR THESE ITEMS IN A TIMELY FASHION SO AS NOT TO INTERFERE WITH THIS DIRECT SALES CONTRACT BETWEEN RAYTHEON AND NATO-HAWK (GENERAL ELECTRIC AND C.G.E. FIAR AT THE SUBCONTRACTOR LEVEL)?

C. IS THERE ANY POSSIBILITY THAT THE SPARE PARTS SHORTAGE (AND THE PENDING DIVERSION OF NATO-HAWK PARTS TO THE ARMY) WAS AGGRAVATED BY DELIVERIES TO OTHER CUSTOMERS FOR IMPROVED HAWK? PUT ANOTHER WAY: CAN THE US GUARANTEE ITS NATO PARTNERS THAT THEY ARE NOT IN FACT, PLAYING SECOND-FIDDLE TO OTHER CUSTOMERS?

D. OVERALL, WHAT ARE THE CURRENT PRIORITIES FOR IMPROVED HAWK DELIVERIES? ARE THESE SUBJECT TO CHANGE-- WITH POSSIBLE ADDITIONAL ADVERSE EFFECTS ON NATO-HAWK?

E. WHAT IS THE LIKELIHOOD OF THIS SITUATION REPEATING ITSELF IN THE FUTURE?

F. HOW DOES THE US PROPOSE TO COMPENSATE NATO-HAWK FOR CONFIDENTIAL

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INCURRED DAMAGES? (HERE, THE BOD MAY ASSERT THAT DAMAGES GO BEYOND FINANCIAL LOSSES WITHIN THE IMMEDIATELY AFFECTED SUB-CONTRACTOR ARRANGEMENTS; THERE WILL BE SCHEDULE IMPACTS THROUGHOUT THE PROGRAM.)

G. THESE QUESTIONS ARE INTENDED ONLY TO BE EXAMPLES OF THOSE WHICH THE BOD MAY CHOOSE TO RAISE. THE LIST IS, BY NO MEANS, ALL-INCLUSIVE.

5. IN MISSION VIEW WASHINGTON SHOULD REACH THOROUGHLY THIS ENTIRE MATTER AND PREPARE AN APPROPRIATE BRIEF FOR POSSIBLE USE BY THE US REP AT THE MARCH BOD MEETING. DAMAGE HAS ALREADY BEEN DONE; THAT DAMAGE CANNOT BE ELIMINATED. MISSION SUGGESTS THAT WASHINGTON PLAN A STRAIGHTFORWARD RESPONSE TO THE BOD WHICH HOPEFULLY, WILL LESSEN THE DAMAGE AND NOT EXACERBATE IT. DEPENDING UPON HOW WASHINGTON DECIDES TO ESTABLISH PRIORITIES AMONG THE US ARMY, NATO-HAWK AND OTHER WORLD-WIDE COMMITMENTS FOR IMPROVED HAWK SEVERAL POSSIBLE APPROACHES MERIT CONSIDERATION. IF THE US DECISION IS TO RELEASE THE SHIPMENT WITHOUT FURTHER DELAY AND NOT HONOR THE ARMY REQUEST FOR DIVERSION OF SOME 500 LINE ITEMS THE EXPLANATION FOR THE BOD COULD BE A FAIRLY SIMPLE CHRONOLOGY OF DEVELOPMENTS THAT LED TO THE PRESENT SITUATION AND AN ASSURANCE THAT THE US WILL NOT REPEAT THESE PROCEDURES IN THE FUTURE. IF THE DECISION IS EITHER TO DIVERT ITEMS OR TO DELAY THE SHIPMENT OF AN ADDITIONAL FOUR TO SIX WEEKS (OR BOTH), THEN WASHINGTON SHOULD PLAN AN EXTENSIVE BRIEF WHICH, AS A MINIMUM, TAKES INTO CONSIDERATION THE FOREGOING LIKELY QUESTIONS.

6. ACTION REQUESTED: RESPONSE TO USNATO 0769 (REF A) AND GUIDANCE WITH RESPECT TO US POSITION ON THIS MATTER AT BOD

MEETING OF 11-13 MARCH.

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